

## Official Title and Summary

Prepared by the Attorney General

### STATE SPENDING AND SCHOOL FUNDING LIMITS. INITIATIVE CONSTITUTIONAL AMENDMENT.

- Limits state spending to prior year's level plus three previous years' average revenue growth.
- Changes state minimum school funding requirements (Proposition 98); eliminates repayment requirement when minimum funding suspended.
- Excludes appropriations above the minimum from schools' funding base.
- Directs excess General Fund revenues, currently directed to schools/tax relief, to budget reserve, specified construction, debt repayment.
- Permits Governor, under specified circumstances, to reduce appropriations of Governor's choosing, including employee compensation/state contracts.
- Continues prior year appropriations if state budget delayed.
- Prohibits state special funds borrowing.
- Requires payment of local government mandates.

### SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT:

- The provisions creating an additional state spending limit and granting the Governor new power to reduce spending in most program areas would likely reduce expenditures relative to current law. These reductions also could apply to schools and shift costs to other local governments.
- The new spending limit could result in a smoother pattern of state expenditures over time, especially to the extent that reserves are set aside in good times and available in bad times.
- The provisions changing school funding formulas would make school and community college funding more subject to annual decisions of state policymakers and less affected by a constitutional funding guarantee.
- Relative to current law, the measure could result in a change in the mix of state spending—that is, some programs could receive a larger share and others a smaller share of the total budget.

### ANALYSIS BY THE LEGISLATIVE ANALYST

#### SUMMARY

This measure makes major changes to California's Constitution relating to the state budget. As shown in Figure 1, the measure creates an additional state spending limit, grants the Governor substantial new power to unilaterally reduce state spending, and revises key provisions in the California Constitution relating to school and community college funding.

The combined effects of these provisions on state spending are shown in Figure 2. The main impact is a likely reduction in spending over time relative to current law. In addition, the measure could result in a smoother pattern of state spending and a different mix of state expenditures.

Each of the measure's key provisions is discussed in more detail below.

#### BACKGROUND

##### CALIFORNIA'S STATE BUDGET

California will spend about \$113 billion to provide public services through its state budget this year.

FIGURE 1

#### PROPOSITION 76: MAIN PROVISIONS

- ✓ **An Additional State Spending Limit**
  - Places a second limit on state expenditures, which would be based on an average of revenue growth in the three prior years.
- ✓ **Expanded Powers for Governor**
  - Grants the Governor substantial new authority to unilaterally reduce state spending during certain fiscal situations.
- ✓ **School Funding Changes**
  - Changes several key provisions in the State Constitution relating to the minimum funding guarantee for K–12 schools and community colleges.
- ✓ **Other Changes**
  - Makes a number of other changes relating to transportation funding; loans between state funds; and payments to schools, local governments, and special funds.